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SUBJECT: BRAZIL - CVRD ON CHAVEZ AND CHINA

¶1. (SBU) Charge, CG and Econoff spoke to Brazilian mining giant Companhia Vale Rio Doce (CVRD) Director of Foreign Affairs, Renato Amorim, on May 26 about the company's stake in the current turmoil in the Latin American business climate and the increasing influence, often to Brazil's detriment, of Venezuelan petrodollars in the region. Amorim stated that Chavez's tactics ultimately would backfire, as had his criticism of Alan Garcia in the Peruvian elections. He criticized Chavez's attempt to strong-arm Brazilian companies active in Venezuela, including CVRD, into participating in a "trade mission" to Bolivia. With respect to China, Amorim argued that although CVRD is growing rich off of the huge China market, Beijing had over-promised and not lived up to the extravagant investment commitments made during the 2004 Hu Jintao visit. End Summary.

ON CHAVEZ's NEW CAUDILLISMO

¶2. (SBU) Charge opened the meeting noting US concerns with Venezuela's unhelpful attempts to introduce issues into Latin America that are unconnected with the region, such as relations towards Iran and Iraq. Amorim declared that Caracas' tactics would backfire, mostly due to Chavez's new "Caudillismo," pointing out that the Venezuelan leader's recent call to CVRD's president requesting that he accompany him on a trade mission to Bolivia was an example of how Chavez gets it wrong or simply does not get it.

¶3. (SBU) Amorim observed that the irony of the Venezuelan president asking a Brazilian company to participate in a trade mission to Bolivia, a country that had just kicked out one Brazilian company (EBX) and threatened another with nationalization, was not lost on CVRD. While CVRD got the message that if companies wanted to stay in the game in Venezuela, they would have to play ball with Chavez in Bolivia, CVRD's response speaks for itself, he said. "We are a 60 billion dollar company with interests all over the world (18 countries on all continents except Antarctica); we have no interest

in Bolivia, an unstable investment climate," Amorim stated. He pointedly added that had CVRD gone on the trade mission with Chavez, the company would have drawn significant criticism in Brazil. While CVRD is following the Bolivia situation for clues to how other countries' leaders might deal with foreign investors, Bolivia is a non-issue for CVRD.

¶4. (SBU) With respect to Peru-Venezuela relations, Amorim said that Chavez's openly harsh criticism of Peruvian presidential candidate Alan Garcia would do nothing but ensure his victory in the June run-off elections. Chavez, he felt, has only heightened Peruvians' resolve to go against Chavez's influence (and therefore elect Garcia).

CHINA'S CLUMSINESS

¶4. (SBU) Amorim sees no real Chinese threat to U.S. interests in Latin America and does not see Brazil as a future Chinese outpost, as it only supplies primary exports to China. (Note: CVRD is one of Brazil's principal exporters to China and company President Roger Agnelli is head of the Brazil-China Business Council.) The Charge reminded Amorim that while playing the role of commodity supplier to China can be lucrative in the short-run, it is problematical in the long-term. Latin America and Asia were once at the same level of development, but Latin American countries had fallen back when they became relegated to role of primary materials suppliers, providing very little value added to their products.

¶5. (SBU) Amorim, a former Brazilian diplomat (10 years in the service) who spent the bulk of his career in China, opined that the Chinese are too clumsy in Latin America (and in Brazil). They are

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not living up to the promise of what he called the bluster and heightened expectations created from Chinese President Hu Jintao's 2004 visit. Amorim noted that the promised investments levels in Latin America have not been realized and probably wouldn't be. He could count only two new Chinese investment projects in Brazil since the Jintao visit, and pointed to China's practice of tied-aid and lack of transparency as not endearing it to Latin America.

¶6. (SBU) Finally, Amorim felt that China needed to recognize that Latin America was much more sophisticated than Africa and could not be treated in the high-handed manner that Beijing dealt with that continent. Indeed, he said, the Chinese are now suffering a backlash to its attempts at "colonizing" Africa, pointing to recent car bombs in Nigeria as a warning against the expansion of Chinese interests in Nigerian oil and the increasing resistance to Chinese interests in Mozambique and Tunisia.

COMMENT

¶7. (SBU) While Amorim was sanguine about the ability of the U.S. and China to avoid conflict over Latin America, real questions are starting to emerge whether, at least on trade issues, Brazil and China will be able to do the same. GOB export figures show that after several years of healthy trade surpluses with China, over the first four months of 2006 Brazil registered a US\$90 million trade deficit with Beijing. Indeed, Chinese imports registered a 56% increase compared to the corresponding time period in 2005. With its ability to produce low-cost items such as electronic goods, textiles, and footwear, China has now displaced Argentina as the second largest exporter to Brazil -- behind only the United States.

¶8. (U) This cable was coordinated with AmEmbassy Brasilia.

ATKINS